

PUBLIC WORKS AND STATE CREDIT

(From *Things Seen and Things not Seen* by Frederic Bastiat the famous French economist who wrote more than eighty years ago. The following little lesson is commended to the authors of certain proposals much in vogue during the General Election campaign.)

Nothing is more natural than that a nation, when convinced that a great undertaking would be of service to the community, should execute it by means of a contribution raised from the community. But I lose patience, I confess, when I hear alleged in support of such a resolution this economic absurdity—"It is, besides, a means of creating employment for the workmen."

The State makes a road, builds a palace, improves a street, digs a canal; it thus gives employment to certain workmen—*that is what is seen*; but it deprives of employment certain other workmen—*this is what is not seen*.

Take a road in course of execution. A thousand workmen come every morning, go away every evening, receive their wages—that is certain. If the road had not been decreed, if the funds had not been voted, those worthy people would not have found in that place either work or wages. This also is certain.

But is this all? Must not the State organize the receipt as well as the outlay? Must it not send its taxgatherers abroad, and lay its taxpayers under contribution?

Let us then study the question in its twofold bearing. While we mark the destination which the State gives to the millions voted, let us not neglect to mark the destination which the taxpayers would have given—and can no longer give—to those same millions. You will then understand that a public enterprise is a medal, with two sides. On one appears a workman employed, with this device—*What is seen*; on the other, a workman unemployed, with this device—*What is not seen*.

The sophism which I combat in this treatise is so much the more dangerous, when applied to public works, that it serves to justify enterprises the most foolish, and prodigality the most wanton. When a railway or a bridge has a real utility, it is enough to appeal to that utility; but if one cannot, what is done? Recourse is had to that mystification—"Employment must be provided for the workmen."

Therefore, orders are given to make and unmake terraces in the Champ de Mars. The great Napoleon, it is well known, thought that he performed a philanthropic act in employing men to dig pits and fill them up again. He used also to say: "What signifies the result; we must consider only the wealth diffused among the working classes?"

Let us go to the bottom of the question. It is money that deceives us. To demand money from all the citizens for a common work, is in reality to demand their labour; for each one of them obtains by labour the sum which he has to pay in taxes.

The process, which consists in making the citizens contribute in money and not in labour, does not in the least change the general result: only, by the latter proceeding, the loss would be shared by all. By the former, those whom the State employs escape their share of the loss, by adding it to that which their fellow-citizens have already to undergo.

There is an article of the constitution to this effect: "Society favours and encourages the development of industry, by establishing, by means of the State, of the departments and the communes, public works suitable for occupying the hands unemployed."

As a temporary measure, in a time of crisis, during a severe winter, this intervention, on the part of the taxpayer may have good effect. It acts in the same way as an insurance office. It adds nothing to work or to wages, but it takes the work and wages of ordinary times, to bestow them, with loss it is true, on periods of difficulty.

As a permanent, general, systematic measure, it is nothing but a ruinous mystification, an impossibility, a contradiction which shows a little stimulated labour *which is seen*, and hides much prevented labour *which is not seen*.

State Credit

No one borrows money for money's sake. Money is borrowed with a view to obtain commodities.

Now, in no country can more commodities be transmitted from hand to hand than that country possesses.

Whatever be the amount of metal or of paper money in circulation, the whole number of borrowers cannot receive more ploughs, houses, utensils, provisions, raw materials, than the whole number of lenders can supply.

For, let us hold firm by this obvious principle, that every borrower supposes a lender, and that every act of borrowing implies a loan.

This point fixed, what good can institutions of credit effect? They can facilitate, for borrowers and lenders, the means of finding each other, and coming to agreement. But what they cannot do is to increase instantaneously the mass of objects borrowed and lent.

To effect the wishes of our reformers, however, it would be necessary for them to have this power—since they aim at nothing less than to place ploughs, houses, utensils, provisions, raw materials, in the hands of all who desire them.

And for this purpose, what is their device?

To give to loans the guarantee of the State.

Let us sound the depths of this question, for there is in it something *which is seen*, and something also *which is not seen*. Let us try to see both.

Suppose that there is only one plough in the world, and that two labourers try to obtain it.

Peter possesses the only plough at disposal. John and James wish to borrow it. John, by his honesty, by his good conduct and good character, offers guarantees. He *is trusted*, he has *credit*. James does not inspire confidence, or he inspires less. Naturally it happens that Peter lends his plough to John.

But suppose the State interferes and says to Peter, "Lend your plough to James, and I will guarantee your being paid; and this guarantee is worth more than that of John, for he has only his own means to answer to his engagements, while I (though I have nothing of my own, it is true) dispose of the means of all the taxpayers; and it is with their money that, in case of need, I will pay you principal and interest."

In consequence, Peter lends his plough to James: *this is what is seen*.

And the Socialists* rub their hands and say, "See how our plan has succeeded! Thanks to the intervention of the State, poor James has a plough. He will be no longer obliged to dig the ground; he is now on the road to fortune. It is a good thing for him, and a profit for the nation, taken in the mass."

Alas, no! gentlemen, it is not a profit for the nation, for here comes *what is not seen*.

It is not seen that the plough is in the hands of James

* To-day, in Great Britain, not only the "Socialists." It is just in these words that all three Parties, Conservative, Liberal and Labour, seek approval for projects like the Trade Facilities Act and the Export Credits Scheme.—EDITOR, *Land & Liberty*.

only because it is not in the hands of John. *It is not seen* that if James ploughs instead of digging, John will be obliged to dig instead of ploughing; and that, consequently, what was considered as an *increase* of loan is in truth only a *displacement* of loan.

Besides, *it is not seen* that this displacement involves a serious twofold injustice. Injustice towards John, who sees himself deprived of the *credit* which he had merited and acquired by his honesty and industry. Injustice towards the ratepayers, who are made liable to pay a debt which concerns them not.

Will it be said that the government offers to John the same facilities as to James? But, since there is only one plough at disposal, two cannot be lent. The argument always returns to the implied assertion that, thanks to the intervention of the State, there will be more borrowings than there can be lendings, for the plough here represents the mass of capitals at disposal.

I have reduced, it is true, the operation to its simplest expression; but try, by the same touchstone, the most complicated institutions of credit that a government can devise, and you will be convinced that they can have this result only—to *displace* credit, not to *increase* it. In a given country, and at a given time, there is only a certain sum of available capital, and it all finds employment for itself. By guaranteeing men who are of themselves insolvent, the State may, indeed, increase the number of those who seek to borrow, and may thus raise the rate of interest (always to the injury of the taxpayer), but what it cannot do is to increase the number of lenders, and the total amount of loans.

The same consideration applies as already pointed out in a previous chapter, to direct expenditure by the State. If, for example, fifty millions are expended by the State they cannot be expended by the individual taxpayer, as otherwise they would have been. From all the good attributed to the public expenditure effected, must then be deducted all the evil of private expenditure prevented; unless, indeed, it be said that Jacques Bonhomme would have made no use of the five-franc pieces he had earned, and of which the State robs him; an absurd assertion, for he would not have taken the trouble to earn them, had he not hoped for the satisfaction of employing them. He would have repaired the fence of his garden, and he can no longer do so; *this is what is not seen*. He would have spread his field with marl, and he can no longer do so; *this is what is not seen*. He would have added a story to his cottage, and he can do so no longer; *this is what is not seen*. He would have increased his stock of implements; he can do so no longer; *this is what is not seen*. He would have fed himself better, clothed himself better, obtained better instruction for his son; he would have added to his daughter's dowry, and none of these things is he now able to do; *this is what is not seen*. He would have joined a mutual benefit society; he can no longer do so; *this is what is not seen*. These are the enjoyments which are taken from him. In addition, the gardener, the carpenter, the smith, the tailor, the village schoolmaster, whose labour he would have encouraged, have all suffered in injury—*this is still what is not seen*.

The only object which I have in view is to make the reader understand, that in all public expenditure, and in all employment of State credit behind the apparent good there is an evil more difficult to discern. So far as in me lies, I would accustom him to see the one as well as the other, and to take both into account.

HAVE YOU ENROLLED FOR THE
EDINBURGH INTERNATIONAL
CONFERENCE ?

THE DE-RATING ACT Its Anomalies and Injustice

TESTIMONY BY THE CITY ASSESSOR OF
GLASGOW

Addressing the Athenæum Club on 15th May, Mr Alexander Walker, the City Assessor of Glasgow, criticized the De-rating Act. He said owners and occupiers of commercial premises would be unable to appreciate why owners and occupiers of flourishing industrial businesses should be relieved of three-fourths of their rates, while they were not. These owners of different businesses might have their premises in the same buildings. The owner of industrial premises, because of the rates relief to be given him, would be able to pay a larger rent than the occupier who did not get relief, so the result would be the tendency to increase rents.

It had been estimated that the Government would contribute to Glasgow in lieu of rates on de-rated lands and heritages £660,000 which sum would represent additional profit to undertakings, because the object was the improvement of industry. If this estimate was a fair one, and the businesses of these owners and occupiers so improved, they might have to pay in additional income tax £150,000, which was practically the extra amount said to be coming to Glasgow.

Mr Walker remarked that the de-rating scheme also aimed at giving greater employment.

In Glasgow it was reckoned there were 2,500 cases entitled to the three-fourths rates deduction. In 1,300 of these the rent of each was under £50, and he did not think that the relief given here would bring employment to one boy more.

He then gave examples of anomalies under the scheme. Regarding a large tailoring establishment where the workrooms were on the premises it was held that the relief could not be given in respect of these workrooms, yet a tailor whose workrooms were separate from his shop would get the relief for his workrooms.

Another example was a large warehouse in the City where the total rent was £4,000. Here two flats were entirely devoted to making underclothing. It had been agreed to take the value of these two flats at £500 to obtain the relief, but the Government officials had turned that down.

Yet next door was a factory rented at £300 where similar manufacture was carried on; still, the Government officials had agreed that relief was to be given in this case. "I did not see where the equity is to be," remarked Mr Walker.

In a letter in *Land & Liberty* Mr C. H. Boyle, Liberal candidate for North-east Leeds, wrote: "At every one of my meetings I have made reference to Taxation of Site Values and the importance of it being adopted before or at the same time if grants of money are made for the employment scheme."

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